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C O N F I D E N T I A L SECTION 01 OF 03 SHANGHAI 000209

SIPDIS

NSC FOR WILDER, TONG
SECDEF FOR ISA DAS SEDNEY
TREASURY FOR AMBASSADOR HOLMER, WRIGHT, DOHNER, CUSHMAN

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TAGS: [PGOV](#) [PREL](#) [ECON](#) [EFIN](#) [CH](#) [TW](#)
SUBJECT: SHANGHAI AMERICA-WATCHERS ON A DIFFICULT YEAR, TAIWAN, AND
THE BILATERAL RELATIONSHIP

REF: SHANGHAI 00000194, SHANGHAI 00000195

CLASSIFIED BY: SCHUCHATSJ, Deputy Principal Officer , Consulate
General of the United States Shanghai, Department of State.

REASON: 1.4 (b), (d)

11. (C) Summary. On May 24, David Shear, incoming EAP/CM Director, met with Shanghai Academy of Social Sciences (SASS) Vice President Huang Renwei and, separately, with Fudan University Center for American Studies Deputy Director Wu Xinbo. (Meetings with Shanghai Institute of International Studies Director Yang Jiemian and Fudan American Studies Center Director Shen Dingli are reported septel.) Both Huang and Wu hope that the Strategic Economic Dialogue continues in some form under the next administration. While optimistic in the long term, Huang emphasized that even the economic relationship between the mainland and Taiwan had many complicated technical aspects and that faster change would not necessarily be desirable. Wu said that China's Ambassador to the U.S. would retire next year and predicted that senior PRC officials would seek to visit Washington early in the new administration. End summary.

A year of significant change

12. (C) SASS's Huang Renwei told Shear that 2008 appears to be a year of significant change in China, with sudden, complicated events including:

- the unprecedented snowstorm at the beginning of the year;
- the "Lhasa riots" in March;
- the Taiwan elections in March;
- disturbances and demonstrations both in China and overseas in connection with the Olympic torch run; and
- the catastrophic earthquake in Sichuan.

According to Huang, leaders in Beijing find it difficult to deal with these events, but they can also force China to move forward. Some things are being changed by these crises. Huang compared the process to a person developing and maturing.

13. (C) The U.S. Presidential election may also have a transforming impact on China, depending on how the candidates, and the next administration, focus on trade issues. The U.S.-China trade relationship is important for both sides, according to Huang. Neither the U.S. market, nor China's existing manufacturing capacity, can be moved to the other country in the short term. However, the long term trend is for greater domestic demand in China, as well as towards a more flexible exchange rate for the renminbi (RMB). These processes take time. There will be a new U.S. administration in seven months. However, the half year until the election is too short for China to make significant changes. Huang predicted that the first year of the administration will be more difficult (for the bilateral relationship) than the second or third years. By the third year things will have moved much further on the exchange rate. Ultimately, the exchange rate is a short term rather than a long term problem. The bigger problem, according to Huang, is the health of both the U.S. and Chinese economies. He b